

DIRECTORS' REPORT 2017



It is a pleasure and privilege on the part of the Board of Directors to present the Directors' Report and Auditors' Report together with the audited financial statements of British American Tobacco Bangladesh Company Limited (BATB) for the year ended 31 December 2017.

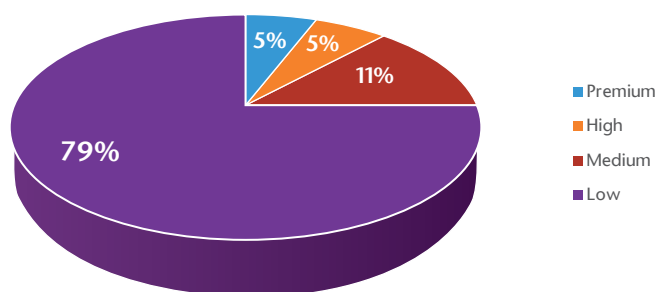
Key Strategic Pillars of Business

BATB witnessed yet another successful year in 2017. The Company made steady progress in many areas during the year despite economic and regulatory challenges. The challenges this year were from different fronts - operational, regulatory and above all from an uneven competitive platform. But your Company continued its journey undaunted and brought you good result for the year together with value enhancement for the stakeholders.

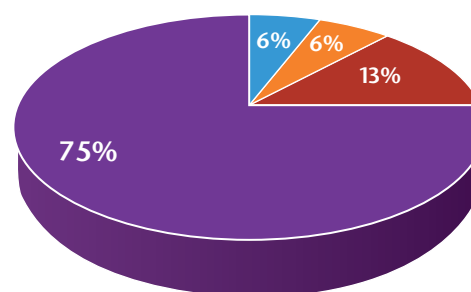
INDUSTRY & COMPANY PERFORMANCE

Economic & Industry Overview

In 2017, Top 3 segments have grown after a long time (+15% in aggregate vs last year) owing mainly to the government's step towards reducing the index gap between Top & Low segment and focused brand initiatives by BATB. However, overall industry volume was still under stress and declined by -4.4% vs last year (2016). Volume de-growth was mainly driven by low segment (-9% vs last year). Low segment was under pressure, especially in post budget 2017 as the industry experienced an upsurge in illegal brands in different forms; i.e. DNP, Counterfeit & Transit illegal cigarettes. This upsurge remains a clear threat for the legal industry sustainability and government revenue which has been duly highlighted to the government. In line with this, Government has conducted few successful enforcements against illegal cigarettes during Oct-Dec 2017. This drive from Government needs to be continued on a regular basis to keep it under check.

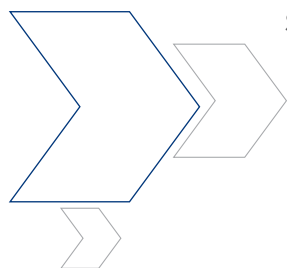


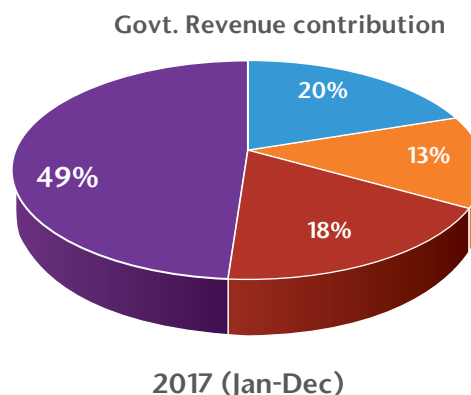
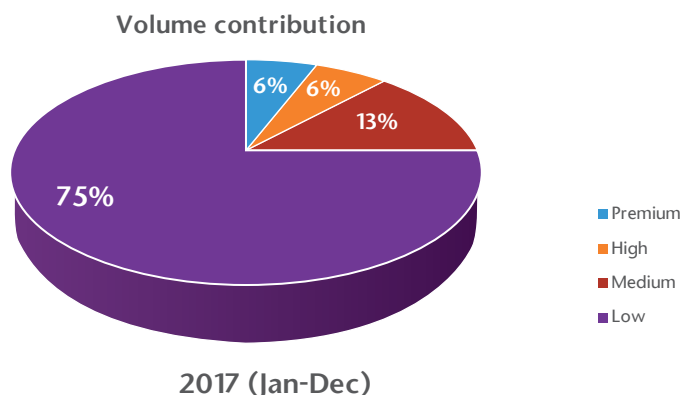
2016 (Jan-Dec)



2017 (Jan-Dec)

Segment wise volume contribution in the cigarette industry is shown below:





Segment wise volume contribution vis-à-vis its revenue contribution to government.

Industry Top 3 segments now generate 51% of government revenue which has grown by +16% in 2017 alone. This helped the Government to secure +15% growth in overall revenue from tobacco industry.

Company Performance

BATB Volume growth was achieved through a focused business strategy that was supported by our people across all business functions. Our brand portfolio was strengthened through innovations and an outstanding range of consumers' preferred quality products. The focus throughout the year was to match consumer expectations with the right offers across all segments. A review on the performance of each of the cigarette segments is as follows:

- ▶ In 2017, Benson & Hedges registered 25% volume growth vs 2016 which was driven by consecutive price hold for last 2 years and marketing initiatives. This single brand helped Government to generate 20% revenue in cigarette industry in 2017. The company is committed to sustain this growth momentum in the upcoming years.
- ▶ After successive years of volume drop due to price increase, John Player Gold Leaf was able to recover from decline in 2017 after consecutive price hold. The brand will require price stability to get back to growth momentum.
- ▶ Till 2016, STAR has also suffered massive volume decline due to year on year price increase

stretching consumer affordability. Last two years' price hold has helped to improve the brand value equation of STAR among consumers. In 2017, STAR experienced double-digit growth and BATB is committed to continue investment behind marketing initiatives to sustain the growth.

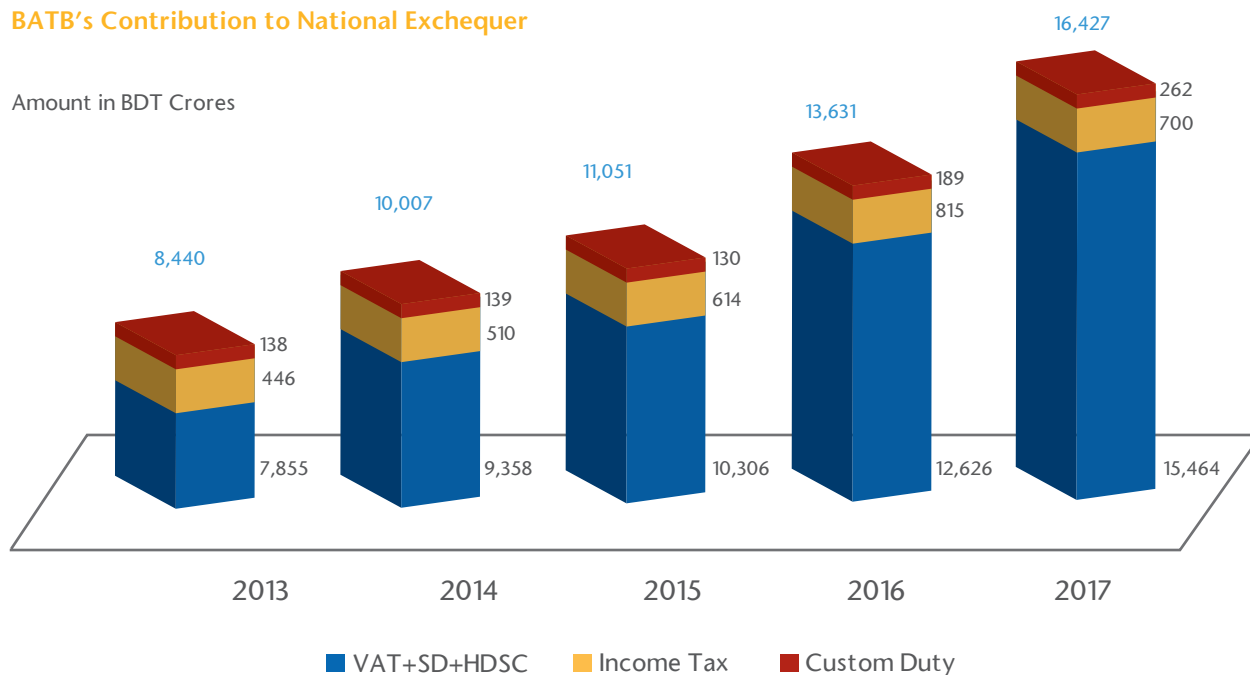
- ▶ In 2017, BATB Low segment brands showed a resilient performance (+3% growth over last year) in a declining legal industry heavily impacted by illegal cigarettes. The Company remains committed in maintaining the acceptable quality of its low segment brands & meeting the needs of the consumers. BATB is also closely monitoring the movement of illegal brands operating in the market and continuously highlighting the risk of potential revenue and profit loss for both Government and other industry operators.

BATB's Contribution to National Exchequer

In 2017, the Company contributed BDT 16,427 crore to the Government exchequer as Value Added Tax (VAT), Supplementary Duty (SD), Health Development Surcharge (HDSC), Income Tax & Custom duty. This represents an increase of BDT 2,800 crore over last year. BATB alone contributed 74% of the total VAT, SD & HDSC collected from the Cigarette industry. The Company will continue to support Government's proposals that help to establish a sustainable level of tax contribution to the National

BATB's Contribution to National Exchequer

Amount in BDT Crores



Exchequer while ensuring a sustainable growth for the industry and promoting a level playing field for all market players.

The Company recognizes Government's revenue growth targets and the industry has been working with the National Board of Revenue (NBR) over the years to ensure sustainable revenue growth from the cigarette industry. While listed companies in all other sectors enjoy a preferential Corporate tax rate, the same privilege was withdrawn by the Government for listed Cigarette companies. We strongly feel that by targeting the corporate tax structure of a listed manufacturer, it significantly impacts the shareholders' return and also takes away the incentives for others in the industry to be listed and thus is a hindrance for further growth of the capital market. The Company believes that the Government will reinstate differential corporate tax rate structures while considering the upcoming National Budget. Cigarette is already highly taxed (in the form of Supplementary duty & VAT) and there is no instance of discriminated corporate tax rates anywhere in the world for Tobacco Companies wherever it is listed in the Stock market. We continue to appeal to the regulators for a reversal of the position in the next national budget.

Productivity

The overall supply chain has been challenged to deliver the market needs on-time. As a result, manufacturing capacity was scaled up and also modified to cater to different pack formats. This required significant investment and meticulous planning so that the growing diverse market demand could be met. A series of productivity initiatives were undertaken across the Company to improve machine efficiency, overall equipment efficiency and machine utilisation. The year also focussed on processing of green leaf. Our leaf growing area was also revamped through various productivity initiatives to process this incremental leaf volume while ensuring the right quality and limiting the additional land requirements.

Cost of Goods Sold and Profit Margins

Revenue increased due to mix improvement. Your Company was able to translate most of the revenue into profit, resulting in a 1% growth in Operating margin to 34.3%. The Cost of Goods sold increased by 13.8% to BDT 2,718 crore due to volume increase, inflation and significant mix improvement, which was off-set through effective cost control and productivity savings initiatives across the Company.



Financial Performance

The gross turnover for the year increased by 23.3% to BDT 20,414 crores. The growth was driven by mix improvement and price increase in the low segment. The profit before tax reflects the impact of mix and price increase coupled with cost management and savings initiative, with an increase of 27.3% to BDT 1,676 crores. However, Government imposed a 2.5%

surcharge on top of our current tax rate of 45%. As such, BDT 3.19 crores and BDT 5.61 crores additional tax was charged for 2016 and 2017 respectively, leading to a 60% increase in taxation. Despite the higher tax expenditure, your company was able to deliver a 3.4% growth on Profit After Tax to BDT 783 crores.

Key Operating & Financial Information at a glance

The key operating and financial information for the year 2017 along with the preceding four years are presented below:

Operational Results	(financials in million BDT)	2017	2016	2015	2014	2013
Gross Turnover		204,140	165,634	143,712	126,725	109,582
Net Turnover		51,964	43,754	39,895	35,562	31,225
Profit before Tax		16,760	13,170	12,460	10,866	9,104
Profit After Tax		7,830	7,582	5,874	6,282	4,924
Share Capital		600	600	600	600	600
EPS in BDT		130.50	126.37	97.90	104.70	82.07
No of Employees		1,453	1,476	1,400	1,353	1,251
Total Contribution to National Exchequer		164,266	136,310	110,505	100,071	84,398

Dividend

In view of the performance of the Company and the current liquidity position, the Board recommends a cash Dividend of BDT 60 per share amounting to total BDT 360 crores for the year 2017, translating into 47% of Profit after Tax (1.8% of market share price BDT 3,404 on 27th March 2018), to be approved in the 45th Annual General Meeting of the Company. With this recommendation of proposed cash dividend, the summary of the total dividend in 2017 is represented below:

Amount in Million BDT	2017	2016	2015	2014	2013
Profit after Tax (BDT Million)	7,830	7,582	5,874	6,282	4,924
Earning Per Share	130.50	126.37	97.90	104.70	82.07
Interim Cash Dividend (BDT Million)	-	-	-	600	600
Final Cash Dividend (BDT Million)	3,600	3,600	3,300	2,700	3,120
Number of Shares	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
Dividend per Share	60	60	55	55	62
P/E Ratio (as of 27 March 2018)	26.33%				
Dividend Yield (as of 27 March 2018)	1.8%				



Sustainability

Climate and environmental conservation has always been an issue of intense importance for Bangladesh. This is more so, as according to various naturalists' reports, Bangladesh will remain a vulnerable country to the impacts of climate change in the decades ahead. BATB believes that the business has a key role to play in helping society to achieve the necessary sustainable balance of economic growth, environmental protection and social progress in ways that will build value for all our stakeholders.

The Company undertook and is continuing with the three areas of Corporate Social Responsibility programs to create positive impact in the communities and environment at large. The flagship activity of the Company, the Afforestation Program, began in 1980 and our Company has distributed 95.5 million free saplings in and around our operational areas, including 4 million saplings in 2017. This continued effort makes the program the largest private sector afforestation programs in the country. The Company is committed to continue this program to support the Government initiative to combat the adverse effects of climate change. Over the years, the Company received a number of national and international awards and accolades for the afforestation drive across the country.

The Company also acknowledges the impact & dependency on biodiversity and the value of eco-system services such as forest products, soil and water resources. Hence, to make the farming communities aware on the importance of biodiversity and its contribution to the eco system, 72 biodiversity corners have been established till 2017 with the help of the registered farmers. The biodiversity corners are located in Kushtia, Meherpur, Chuadanga, Jhenaidah, Rangpur, Manikganj, Bandarban, Khagrachari and Cox's Bazar districts.

Millions of people in Bangladesh face scarcity of safe drinking water due to arsenic contamination. Responding to this need BATB has taken up a project that provides more than 400,000 litres of arsenic and other impurities free drinking water to arsenic-prone rural communities every day. This program is aligned with the Government's aim to achieve the Sustainable Development Goals of securing sustainable access to safe drinking water. So far, 73 water filtration units have been installed,

using government approved water filtration technology in Jhenaidah, Chuadanga, Meherpur, Kushtia, Tangail, Manikganj, Satkhira, Gopalganj, Lalmonirhat, Kurigram, Jamalpur, Madaripur and Natore ensuring pure drinking water for nearly 190,000 people every day.

To complement Bangladesh Government's efforts in the renewable energy sector, BATB has undertaken a project to install solar systems in village homes that are in remote, off-grid areas of Chittagong Hill Tracts. The solar initiative of BATB supplied 2,064 units of solar home systems in remote villages in Bandarban and Khagrachari districts, giving more than 12,000 rural people their first access to electricity at home

BATB has a fruitful partnership with farmers across the country through its various programs dedicated to improving overall agricultural practices and standards. The Company's Leaf function starts with the hard work of around 34,000 registered farmers within the village community. BATB's contract farming model has been a proven model for decades. The Company sets high standards of agricultural practices to ensure that the sources of raw materials are sustainable. Improving soil fertility, Integrated Pest Management and Water Conservation are key elements of good agricultural practices. The Company provides the technical know-how and extend necessary support to install Compost Pits in the homesteads of its registered farmers. Another initiative includes Green Manuring through Dhaincha cultivation (*Sesbania Aculeata*) - an effective approach to enrich soil health and fertility. These initiatives significantly improve the organic matter content in the soil, resulting improved soil fertility, thus reduces the dependency on the use of chemical fertilizers; these also reduces farmers' cost of production and environmental pollution.

The Company has been expanding Integrated Pest Management (IPM) Clubs in Leaf Areas in collaboration with the Department of Agricultural Extension of Govt. of Bangladesh, to educate the farmers for adopting to non-chemical alternatives for insects and pest managements for all kinds of crops. As a result of this continuous education

program farmers became more cautious and conscious about the use of chemical pesticide in farming. Therefore, they have adopted the biofriendly approaches including Neem Leaf Decoction, Bird Perching, Trichodarma, Pheromone Traps etc. So far, 75 IPM clubs have been established to run Farmers Field School to educate the farmers. The Company has been awarded with **Asia Responsible Entrepreneurship Award 2017 in 'Social Empowerment' category by Enterprise Asia for IPM Club initiative.**

Under the water conservation program, proper irrigation systems and regime have been established which ensure that only the required level of water is used and there is no wastage of water through the use of Poly Tubes and Furrow Irrigation.

BATB farmers are well equipped for using different alternative fuels such as: Jute Sticks, Dhaincha Sticks, Sugarcane bagashi, Paddy Husk Briquettes etc. Recently BATB has invested to make briquettes from tobacco and factory wastes for supplying to farmers. Altogether 80% of the tobacco is cured using alternate fuels. Moreover, to improve fuel efficiency 50% of the conventional barns has been converted to fuel efficient Rocket Barns with the support from the company.

The Company supports sensible tobacco regulations that balances the interest of consumers with the interests of society and enables the business to continue to compete and prosper. The Company is conducting all its activities in line with the amended Smoking and Tobacco Products Usage (Control) Act, 2013. All of the sales activities are governed in compliance with the Smoking and Tobacco Usage (Control) Act, 2005 and Amendment Act, 2013 and the subsequent Rules along Company policies. These principles symbolize the commitment to market the Company products appropriately and only to adult users in compliance with local laws and regulations. We have successfully complied with the local regulations regarding the Graphical Health Warning on our cigarette packets. Graphical Health Warning must be implemented on all tobacco products to ensure level playing field. However, we always believe that the regulations with respect to Graphical Health Warnings should not be

disproportionate, otherwise it will not deliver the intended results and will significantly erode our Intellectual Property Rights.

BAT Bangladesh has an economic impact both in terms of revenue generation for the Government and employment generation by employing around 1,500 direct employees, and 50,000 indirect employees in the form of farmers, distributors and suppliers and over 1.3 million retailers. The Company therefore, seeks that the Government takes an inclusive and participative approach about tobacco regulations, so that the regulatory policies reflect the views of all relevant stakeholders and are practical and enforceable.

Winning Organisation

The outstanding performance of BAT Bangladesh in 2017 can be credited to the hardworking people and the efficiency of the teams. The people of BATB are ever committed in driving the business with passion to win in an ever-changing and challenging business environment. The rapid success and growth of the company is powered through providing employees with an amazing work environment and involving the employees within the core business strategies. Peoples' constant resilience to tackle all the challenges has transformed BATB into an organization that is energetic and propels it to success.

BATB focuses on the learning and growth of its people with the aim of developing leadership capabilities to assist the people to realize their full potential. This is done by supplying the right opportunities to learn from their leaders and applying BAT's globally recognized learning and development platforms. The organization continues to provide the people with an environment that listens to their queries and that nurtures the talent. In 2017, around 260 employees have been trained through programs that helped them unleash their full potential. BATB focuses on building functional skills and also provides hands-on experiences to develop individuals as leaders. With the aim of sustaining the present agenda for talent, 105 employees were hired, 114 employees were transferred to other roles and 74 were promoted. International assignments were given to 15 Bangladeshi managers in countries such as UK, Singapore, Indonesia, Japan, Korea, Hong Kong and

Australia. On top of that, 265 employees were provided with leadership and functional skills training. Our talented and experienced factory employees went abroad to train up the factory operators in other countries such as Poland, Singapore, Fiji, Indonesia and UK.

The 14th edition of “Battle of Minds” (BoM), the flagship talent acquisition and grooming programme of the company was launched for universities all over Bangladesh. The programme aims to augment and develop the capabilities of fresh graduates to a high degree of proficiency to prepare them as business professionals. Every year Battle of Minds comes up with new ways to be more challenging as was the case this time around giving the participants a glimpse of the day to day problems of Dhaka City. In 2017, BoM alumni, with several BATB employees, visited some of the top universities of the country with roadshows, taking the stage to enlighten the students about the competition and its rounds. With comprehensive online campaigns, BoM reached out to 16 universities within the country with innovative initiatives like facebook live, the online campaign got the reach of over 2 million within the country. Through this, the number participants exceeded 2300 this year as BATB is determined to leave a footprint in the nation-building process with the help of its Battle of Minds and the success stories of its employees.

BATB takes on multiple initiatives in order to create a workforce that is highly engaged and strives to bring the people together in achieving the organisational objectives. We work constantly in involving people to make sure that they are aligned with the mission and vision of the company as well as their individual visions.

Environment, Health and Safety

British American Tobacco Bangladesh is fully committed to ensure safety and health of its people who come into BATB premises as well as minimize impact on environment. To keep the employees aware, the Company carried out various kinds of communications, awareness programs for managers, employees, and contractors throughout the year. A week-long campaign titled ‘EHS Awareness Week’ was arranged focusing on safe work practices in production floor, warehouses, and offices.

The Board of Directors

The Board of Directors of BATB blends a group of corporate specialists and highly qualified senior government officials and ex government officials. It is an amalgam of 9 professionals of whom 7 are non-executive directors including 2 independent directors and most of whom are senior Government officials. The composition of the BATB Board is as follows:

Mr. Golam Mainuddin Chairman Board of Directors
Mr. Shehzad Munim Managing Director
Mr. Mosharraf Hossain Bhuiyan Independent Director (Resigned w.e.f. 3 January 2018)
Mr. Mohammad Moinuddin Abdullah Independent Director
Mr. Muhammad Abdullah Non-Executive Director Secretary, Ministry of Industries (Appointed w.e.f. 20 August 2017)
Mr. Mikail Shipar Independent Director (Former Secretary of the Government)
Mr. Jalal Ahmed Non-Executive Director Additional Secretary, Ministry of Finance
Ms. Tahmina Begum Non-Executive Director Additional Secretary, Ministry of Finance (Appointed w.e.f. April 2018)
Mr. Md. Iftikhar-Uz-Zaman Ex - Managing Director, ICB (Resigned w.e.f. 20 August 2017)
Md. Sanaul Hoq Managing Director, ICB (Appointed w.e.f. 20 August 2017)
Mr. K. H. Masud Siddiqui Non-Executive Director (Former Secretary of the Government)
Mr. William Francis Pegel Finance Director

The Board members are responsible for attaining the company's business objectives, while also safeguarding the interests of its shareholders and numerous stakeholders. Mr. Md. Azizur Rahman FCS, Head of Public Affairs & Company Secretary functions as the secretary to the Board Committees. We believe that the company Board includes core competencies considered relevant in the context of BATB. The Company has obliged all regulatory compliances necessary for membership in the Company Board.

Mr. Md. Iftikhar-Uz-Zaman resigned from the Board with effect from 20th August 2017. Mr. Md. Mosharraf Hossain Bhuiyan ndc resigned from the Board with effect from 3rd January 2018. The Board of Directors would like to put on record the excellent contributions of Mr. Md. Mosharraf Hossain Bhuiyan ndc and Mr. Md. Iftikhar-Uz-Zaman towards improvement of the Company and taking keen initiatives in the different issues during their tenure as Directors of the Board. The Board wishes Mr. Bhuiyan every success in his new endeavour. The Board also wishes Mr. Md. Iftikhar-Uz-Zaman every success in the future.

Directors Proposed for Re-election

Mr. Muhammad Abdullah, Mr. Kazi Sanaul Hoq and Ms. Tahmina Begum who were appointed to the Board after the last Annual General Meeting shall retire in the ensuing meeting. Mr. K. H. Masud Siddiqui shall also retire from the Board by rotation at the 45th Annual General Meeting. All the retiring Directors, being eligible, are proposed for re-election at the 45th Annual General Meeting.

In accordance with the Articles of Association of the Company, Mr. Golam Mainuddin having reached the age above 65 years shall retire at the upcoming Annual General Meeting. However, being eligible, he is also proposed for re-election at the Meeting for one year i.e. until the conclusion of the 46th Annual General Meeting to be held in 2019.

Board Committees

There are currently three functional Committees of the Board, namely: Audit Committee, Compensation Committee and CSR Committee, the details of which are as follows:

Audit Committee

The Board has constituted an Audit Committee as per the BSEC directives. As required, the Report of the Audit Committee is included in this Annual Report. In 2017, Mr. Mosharraf Hossain Bhuiyan served as the Chairman of the Committee (resigned effective from 3rd January 2018). Currently, the Committee comprises of Mr. Mohammad Moinuddin Abdullah (Chairman of the Committee effective from 3rd January), K. H. Masud Siddiqui, Mr. Md. Sanaul Hoq and Mr. Golam Mainuddin. All the members of the Committee are non-executives Directors and the Chairman of Audit Committee is an Independent Director. The Audit Committee met four times during the year 2017. Mr. Md. Azizur Rahman FCS, Company Secretary served as the Secretary to the Audit Committee. Our Internal Audit Manager, Mr. Adnan Sharif Khan, presented the audit findings to the Audit Committee in the meetings. The key performances of the Audit Committee during the year were as follows:

- ▶ Reviewed and discussed the audit findings and risk assessment.
- ▶ Recommend to the Board the quarterly and annual financial statements.
- ▶ Considered and recommended to the Board the appointment and remuneration of the statutory auditors of the Company.
- ▶ Reviewed and appraised the performance of the internal control system.
- ▶ Reviewed and recommended to the Board the Internal Audit Plan and monitored the progress about the same.
- ▶ Discussed the Internal and External Audit Report and findings therein with the auditors, members of Management and monitored the status of implementation of recommendations therein.



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- ▶ Reviewed and appraised the performance of the internal control system.
- ▶ Reviewed and recommended to the Board the Internal Audit Plan and monitored the progress about the same.
- ▶ Discussed the Internal and External Audit Report and findings therein with the auditors, members of Management and monitored the status of implementation of recommendations therein.
- ▶ Reviewed and considered the report on matters as required under the BSEC Guidelines.
- ▶ Reviewed the Loss and write-off report.
- ▶ Reviewed the law of the Country in relation to the business operations.

BOARD COMPENSATION COMMITTEE

The Board Compensation Committee makes recommendations to the Board on terms of employment of the members of the Executive Committee, managers and employees. This Committee met three times in 2017 and is headed by a Non-Executive Director. The other members include the Managing Director and the Finance Director. The Head of Human Resources acted as the Secretary to the Board Compensation Committee. The Board Compensation Committee carries out independent survey of the market position and accordingly adjust the remuneration.

BOARD CSR COMMITTEE:

The Board Corporate Social Responsibility (CSR) Committee is comprised of five Directors, of which, an Independent Director is the Chairman. In 2017, Mr. Mohammad Moiunddin Abdullah served as the Chairman of the Committee. Currently, the constituents of the Committee are

Mr. Mikail Shipar (Chairman of CSR Committee effective from 3rd January 2018), Mr. Mohammad Moiunddin Abdullah, Mr. Muhammad Abdullah, Mr. Jalal Ahmed, Mr. K.H. Masud Siddiqui, Ms. Tahamina Begum and Mr. Shehzad Munim. The purpose of the Board CSR Committee is to ensure long term sustainability of Company aspirations and management of the Company's CSR initiatives. The initiatives are managed in a way that secures business stability and sustain positive image and reputation of the Company and establishes the Company's commitment to the nation at large. The CSR committee met two times in 2017. The initiatives are all aligned with the SDG's and we are contributing to fulfil the Government's commitment and for the BATB's shareholders at large.

Going Concern

The Directors are of the opinion that the Company is a going concern. Accordingly, Financial Statements are prepared on a going concern basis.

The System of Internal Control

As there is always a degree of uncertainty ahead of our operations, the Board of Directors assures its Shareholders that the Company has a competent risk management process to ensure that the system of internal control is sound in design and has been effectively implemented and monitored. Although it is possible that all risks to the business are not known at present, the Company takes reasonable steps to identify material risks that may hamper business results. The Company then systematically reviews these risks in light of the changing internal and external environment in order to assess that controls that are in place are adequate to address those risks. This report further encloses a detailed discussion on the internal control framework under the Statement of Internal Control.

Directors' Declaration as to Financial Statements

The Directors are responsible for the governance of the Company, and as part of preparation and presentation of the financial statements, the Directors confirm, to the best of their knowledge that:

- ▶ the financial statements, prepared by the Management of the Company which was scrutinised by the external auditors, present fairly its state of affairs, the result of its operations, cash flows and changes in equity;
- ▶ proper books of account of the Company have been maintained;
- ▶ appropriate accounting policies have been consistently applied in preparation of the financial statements and that the accounting estimates are based on reasonable and prudent judgment;
- ▶ the International Accounting Standards, as applicable in Bangladesh, have been followed in preparation of the financial statements and any departure from there has been adequately disclosed;
- ▶ the system of internal control is sound in design and has been effectively implemented and monitored;
- ▶ there is no doubt, whatsoever, upon the Company's ability to continue as a going concern.
- ▶ As required under the BSEC directives, the Directors further confirm that:
 - ▶ The CEO and CFO have certified to the Board that they have reviewed the financial statements and affirmed that these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading.
 - ▶ The CEO and CFO have certified to the Board that they have reviewed the financial statements and affirmed that these statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards and applicable laws.
 - ▶ The CEO and CFO have further certified to the Board that there are, to the best of their knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or in violation of the company's codes of conduct.

Retrospective Tax Demand by LTU- NBR

On 23rd November 2013, Large Tax Unit (LTU) of National Board of Revenue (NBR) served a retrospective VAT and SD demand for BDT 1,924 crore upon BATB for selling its products Bristol and Pilot in the low segment instead of medium segment. Thereafter, due to the unfounded and baseless nature of the claim, the company challenged the demand before the Hon'ble High Court and on 6th March 2016 the Hon'ble High Court reduced the demand to BDT 1,780 crore. The Company appealed against the same and the Appellate Division was pleased to admit the appeal on 13th November 2017 and fixed 13th February 2018 for the case to be listed for appeal hearing. The case is currently pending for hearing of the appeal.

BATB is the highest tax contributing company in Bangladesh and ensuring compliance with the law is its highest prerogative. BATB sold the products in question after getting the due approval from LTU-NBR and sold the same absolutely in compliance with the VAT-1 approvals. Despite providing the approvals to sell the products in low segment year after year, LTU-NBR served the retrospective demand and continued to give VAT, as approved after the claim.

The ulterior motive behind the aforesaid baseless and unfounded claim can be seen from the fact that the demand was initiated by competitor's complaint that BATB was selling products of higher quality in a lower segment. It is pursuant to the competitor's complaint that LTU-VAT conducted a chemical test at Bangladesh Council of Scientific and Industrial Research (BCSIR) to determine the quality of BATB's products Pilot and Bristol against BATB's medium segment products.

It is also worth mentioning that despite there being no reference of chemical test in the VAT law, LTU conducted this test only for BATB's products and none from the competitors. It should also be mentioned that the Supreme Court has confirmed that BSTI is the competent authority to conduct the chemical test and accordingly ordered LTU to conduct the chemical tests of low segment cigarettes of BATB and few other local companies at BSTI.

In accordance with the said order, the chemical test of BATB's products were conducted at BSTI and the reports confirmed that none of the cigarette brands are similar to each other. Therefore, the very basis of the LTU demands and the allegation of false price declaration now stands negated.

Moreover, Ministry of Law which is the responsible body for providing opinion on legal issues has also opined that there cannot be any retrospective VAT claim under the VAT law. It has confirmed that since BATB did not collect the VAT and SD of medium segment from the consumers, LTU- cannot impose any retrospective VAT and SD claim on BATB.

In purview of the above, namely BSTI's test reports which have negated the basis of the claim, Ministry of Law's opinion that there cannot be any retrospective claim and that reference to quality/test has no basis under the law and the Honourable Prime Minister and Finance Minister's assurance to reach a solution of this issue, the Board feels optimistic for a positive outcome.

Other Regulatory Disclosures

- ▶ The Company is aware of its various risks and concerns of regulatory bodies. Financial risk management has been disclosed under note 36.B of the financial statements
- ▶ All transactions with related parties have been made on a commercial basis and the basis was the principle of "Arm's Length Transaction". Details of related party and transactions have been disclosed under note 37 of the financial statements.
- ▶ The Company's IPO was made during inception. No further issue of any instrument was made during the year.
- ▶ From inception, the financial results of the Company have continued to grow as reflected in the yearly financial statements of the Company.
- ▶ As per IAS 1 Presentation of Financial Statements, no items of income and expense are to be presented as 'extraordinary gain or losses' in the financial statements. Accordingly, no extraordinary gain or loss has been recognized in the financial statements.
- ▶ No significant variations have occurred between quarterly and final financial results of the Company during 2017.

- ▶ During the year, the Company has paid a total amount of BDT 79,000 as Board meeting attendance fees. The remuneration of Directors has been mentioned in Note 37 of the Financial Statements.
- ▶ All significant deviations from the previous year in operating results of the Company have been highlighted and reasons thereof have been explained.
- ▶ The key operating and financial data for the last five years have been disclosed in the Directors' Report.
- ▶ The Company has proposed cash dividends for the year 2017.
- ▶ During 2017, a total of 10 (ten) Board meetings were held, which met the regulatory requirements in this respect. The attendance records of the Directors are shown in Annexure-1 to this report.
- ▶ Shareholding patterns of the Company as on 31 December 2017 are shown in Annexure-1 to this report.

Corporate Governance Compliance Statement

BATB believes that enriched corporate governance contributes to the long-term success of a company and creates trust and engagement between the company and its stakeholders. Accordingly, the Board of Directors and Management are committed to continuously striving for the highest standards in governance to ensure that the business and its affairs are in strict adherence to the doctrine and principles of sound governance such as integrity, transparency, accountability and responsible business conduct to safeguard the interests of its shareholders and stakeholders. It is the responsibility of the Company Secretary, being the highest governance official in the Company, to ensure effective compliance of rules and regulations in this respect.

As part of its corporate policy, BATB always strives to maximize its shareholders' value and benefit. In doing so, the Company is committed to maintaining high standards of Corporate Governance. The Company's Corporate Governance framework is directed towards achieving its business objectives in a manner that is responsible and in accordance with its high standards of honesty, reliability, transparency

and accountability. The essential elements that define effective corporate governance in the Company are outlined in the Corporate Governance Statement which is appended in this Annual Report. The contents in the statement further expand on the broad practices in BATB. All the employees are expected to live up to these principles and guidelines which are communicated regularly throughout the Company in the form of various training and awareness programmes.

In this respect, we have the pleasure to confirm that the Company has, complied with all the necessary guidelines under BSEC Notification No. SEC/CMRRCD/2006-158/134/Admin/44 dated 7 August 2012. The Compliance Report along with the necessary remarks and disclosures is appended in this Annual Report for the year 2017. Further, a Certificate of Compliance required under the said Guidelines, as provided by M/s. Al-Muqtadir Associates, Chartered Secretaries, is also annexed to this report.

Auditors

The existing Auditor of BAT Bangladesh will retire at the 45th Annual General Meeting. Pursuant to Bangladesh Securities and Exchange Commission's order dated 27th July 2011, the Company cannot appoint any firm of chartered accountants as Statutory Auditors for a consecutive period exceeding three years. Hence, KPMG Rahman Rahman Huq, who have completed their tenure of three years as Statutory Auditors of the Company, do not qualify for reappointment. Considering the available options and on the basis of suggestion of the Audit Committee, the Board recommends A. Qasem & Co., Chartered Accountants, for appointment as the new Statutory Auditor of the Company for the year 2018 at the 45th Annual General Meeting at a fee of Tk. 900,000 (Taka Nine lacs) and requests the Shareholders to approve the appointment.

Business Commitments

BATB values and continuously updates its corporate strategies and commitments. It was more than 100 years ago, when the Company established itself on this land of opportunities

and possibilities - Bangladesh. Since independence of Bangladesh, BATB has demonstrated an unwavering dedication to the country and its people and this commitment is what sets BATB apart from any other business entity. This uniqueness is reflected through the passion and dedication of its employees and business partners that has brought BATB across the country to its today's height. BATB in Bangladesh is listed on both Dhaka and Chittagong Stock Exchanges and is currently the highest taxpayer. In this year alone, we have contributed Taka 16,427 crores in the Government exchequer in the form of supplementary duty, value added tax, income tax, custom duty and other levies. BATB has always cherished and shall continue to value its treasured relationship with the Government of Bangladesh, esteemed shareholders and other stakeholders of the Company.

Awards & Achievements

Our stupendous performance and management in the year 2017 has led us to achieve some prestigious awards from different credible organisations locally and internationally. In 2017 the Company was awarded with the following recognitions:

1. Highest Tax Payer Recognition by National Board of Revenue (NBR);
2. South Asian Federation of Accountants (SAFA) award for 'Best Presented Annual Report' in manufacturing category;
3. Asia Responsible Entrepreneurship Award 2017 in 'Social Empowerment' category for IPM Club given by Enterprise Asia;
4. 'Best Corporate Social Responsibilities Practice' from Bangladesh CSR Leadership Award 2017 platform;
5. Adam Smith Award 2017 in 'Harnessing the Power of Technology' category;
6. 17th ICAB National award for best presented Annual Report;
7. ICMAB Best Corporate Award 2016;
8. 'Dream Company to Work for' award from Bangladesh Best Employer Brand Awards 2017 platform;
9. 'Best Recruitment Evaluation Techniques' award from Bangladesh Best Employer Brand Awards 2017 platform;

10. 'Best HR Event of the Year' for Battle of Minds award from Bangladesh Best Employer Brand Awards 2017 platform;
11. ICSB National Award for Corporate Governance Excellence;
12. 'CEO of the Year' (Shehzad Munim) from Asia Best Employer Brand Award 2017 platform
13. 'Leadership Excellence in Community Services Award' (Zahurul Haque Sarker) from Asia Best Employer Brand Award 2017 platform
14. 'Diversity Impact Award' (Shehzad Munim) from Asia Best Employer Brand Award 2017 platform
15. Progressive Woman Leader Award 2017 by Bangladesh Brand Forum (BBF) (Adrita Dutta, HR Business Partner – Marketing)
16. Aspiring Woman Leader Award 2017 by Bangladesh Brand Forum (BBF) (Farhana Chowdhury – Area Manager)
17. Woman Award for Corporate Leadership by Wings Bangladesh (Mubina Asaf).
18. 20 Local Government awards for Afforestation in different districts.

(Details of these awards are mentioned in the achievements section of this Annual Report)

Expectations In 2018

BATB has an ambition to provide consumers' preferred quality products, to its numerous customers/ brand users. Now, looking ahead in 2018 and beyond, BATB wishes to go ahead with the same zeal that it had started 100 years ago, to be the number one locally listed Company in turnover, in partnering with the national exchequer and to operate as a social responsible Company. Moreover, the Company's initiatives for 2018 will bring about a positive change across the nation with its various initiatives directed towards poverty alleviation, gender equality, human development and well-being, partnership in green cultivation practices, prevention of arsenic contamination, forest preservation, and extending sustainable modern energy in off-grid areas.



Acknowledgements

The performance of BATB in 2017, even with so many challenges confronted, demonstrates the determination of the Board, Management and overall the people in the Company. The outstanding achievement of the year is more than a tribute to the countless brand users of the Company and its numerous stakeholders'. And with that conviction at the background, the Board of Directors firmly believes that BATB has the necessary strengths, resources and commitments to further propel the Company to newer heights. The Members of the Board would like to place on record their high appreciation to the valued Shareholders and all other Stakeholders of the Company for their persistent support and guidance. The Board would also like to thank each and every customer for their continued support and for making the Company brands their preferred choices. The Board also recognises that its journey and accomplishments during the year was possible because of the cooperation, positive support and guidance that it had received from the Government of Bangladesh, particularly the Ministry of Finance, Ministry of Commerce, Ministry of Agriculture, Ministry of Labour and Employment, Ministry of Forest & Environment and Ministry of Housing & Public Works, National Board of Revenue, Board of Investment, Bangladesh Investment Development Authority, Bangladesh Securities and Exchange Commission, Stock Exchanges and other numerous stakeholders. The Board would also like to appreciate the support from bankers, Bangladesh bank, insurers & financial institutions, vendors, the Press & Media, business partners and all of our employees. Accordingly, the Board offers its utmost gratitude to them.

We also extend our warmest thanks to the management and employees for being the essential part of BATB during the year. It was their unrelenting commitment, dedication and diligence throughout the year that led to the Company achieving the results, awards and accolades in 2017.

We are proud of you all and look forward to your continued support as we march ahead to take BATB forward as a leading player within the Bangladesh business community.

On behalf of the Board of Directors,

sd/-

Golam Mainuddin
Chairman

5 March, 2018

sd/-

Shehzad Munim
Managing Director

5 March, 2018